

GOVERNMENT OF PAKISTAN
SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

NOTIFICATION

Islamabad, the 31st October, 2023

S.R.O.1515(I)/2023.- The following draft of amendments to the Insurance Rules, 2017, proposed to be made by Securities and Exchange Commission of Pakistan in exercise of the powers conferred by sub-section (2) of section 167 and sub-section (1) of section 34 of the Insurance Ordinance (XXXIX of 2000), is hereby published for the information of all persons likely to be affected thereby and notice is hereby given that objections and suggestions, if any received to the Securities and Exchange Commission of Pakistan within the thirty days of this notification will be taken into considerations, namely:-

DRAFT AMENDMENTS

In the Insurance Rules, 2017:-

1. after rule 13, the following new rule 13A and 13B shall be inserted, namely:-

“13A. Valuation of subordinated debt securities for solvency purpose. - (1) Where an insurer has issued subordinated debt which fulfills the criteria provided in these rules, the outstanding amount of subordinated debt to be considered as liability of the insurer for the purpose of solvency which shall be arrived by application of a discount factor, as per the following table:

Remaining Years to Maturity	Rate of Discount
More than five years	100%
More than four year but less than or equal to five years	80%
More than three years but less than or equal to four years	60%
More than two years but less than or equal to three years	40%
More than one but less than or equal to two years	20%
Less than or equal to one year	0%

(2) Where the subordinated debt issued by the insurer, in aggregate, exceeds 50% of the net equity i.e. paid up capital, accumulated profit/(loss) and any reserves held by the insurer, the amount exceeding 50% of net equity shall be added back to the liability of the insurer for solvency purpose:

Provided that reserves held against available for sales investments, fixed assets and foreign exchange translation reserves shall be excluded for the purpose of application of the limits above.

13B. Characteristics of subordinated debt securities. - (1) For the purposes of rule 13A, a security having the following characteristics shall be considered as subordinated debt and shall be allowed for the purpose of solvency of an insurer,-

- (a) the instrument shall fulfill the definition of “securities” as provided in sub-clause (b) of clause (lii) of section 2 of the Securities Act, 2015;

- (b) the debt security must be unsecured, free from any and all encumbrances and shall have been issued and fully paid up in cash;
- (c) the rate of interest / profit on the debt security shall be determined by the issuer and can either be floating or fixed;
- (d) the debt security shall be legally subordinated to the rights of policyholders, their beneficiaries and non-subordinated creditors of the insurer in the event of insolvency or winding-up of the insurer;
- (e) The debt security shall either be perpetual, or have a minimum fixed term to maturity as given below,-
 - (i) for life insurers: 10 years; and
 - (ii) for non-life insurers: 7 years.

(2) The subordinated debt issued by an insurer shall not be covered by a guarantee of the insurer or any other arrangement that may legally enhance the seniority of claim of the subordinated debt security holder as against the claims of the insurer’s policyholders, their beneficiaries and non-subordinated creditors.

(3) Subordinated debt issued by an insurer shall not be considered in the solvency of the insurer, unless the insurer has obtained approval of the Commission for inclusion of the subordinated debt security for solvency purpose.

(4) Subordinated debt securities issued by insurers shall not be redeemable before maturity without prior approval of the Commission.”;

2. In Annexure II, in the STATEMENTS FOR LIFE INSURERS, in the forms of Regulatory Returns, in the existing Form LI, for the expression,

Total Net Admissible Assets (E=C-D)	-	-	-

the expressions “

Subordinated Debt as per requirement of rule 13A

Total Amount of Subordinated Debt Issued	-	-	-
Liability allowed for inclusion as per table to rule 13A (E)	-	-	-

Total Net Admissible Assets (F=C-D+E)	-	-	-

” shall be substituted;

3. In Annexure II, in the STATEMENTS FOR LIFE INSURERS, in the formats of Published Financial Statements, in the existing note 47; for the expression,

Total Net Admissible Assets (E=C-D)	-	-	-

the expressions “

Subordinated Debt as per requirement of rule 13A

Total Amount of Subordinated Debt Issued	-	-	-
Liability allowed for inclusion as per table to rule 13A (E)	-	-	-

Total Net Admissible Assets (F=C-D+E)	<u>-</u>	<u>-</u>	<u>-</u>
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" shall be substituted;

4. In Annexure II, in the STATEMENTS FOR NON-LIFE INSURERS, in the forms of Regulatory Returns, in the existing Form GJ, for the expression,

Total Net Admissible Assets (E=C-D)	<u>-</u>
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the expression “

Subordinated Debt as per requirement of rule 13A

Total Amount of Subordinated Debt Issued	-
Liability allowed for inclusion as per table to rule 13A (E)	-

Total Net Admissible Assets (F=C-D+E)	<u>-</u>
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” shall be substituted; and

5. In Annexure II, in the STATEMENTS FOR NON-LIFE INSURERS, in the formats of Published Financial Statements, in the existing note 40; for the expression,

Total Net Admissible Assets (E=C-D)	<u>-</u>
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the expression “

Subordinated Debt as per requirement of rule 13A

Total Amount of Subordinated Debt Issued	-
Liability allowed for inclusion as per table to rule 13A (E)	-

Total Net Admissible Assets (F=C-D+E)	<u>-</u>
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” shall be substituted;

[ID/LP&AD/SUBORDINATED-DEBT/2023]


(Bilal Rasul)
Secretary to the Commission